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THE SIGNIFICANCE OF RECENT SOVIET GOLD SALES

CIA/RR IM-384

14 January 1954

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(ORR Project 11)S-E-C-R-E-TTHE SIGNIFICANCE OF RECENT SOVIET GOLD SALES1. Soviet Gold Export Capability.

The ability of the USSR to export gold is indicated only in part by the present level of gold shipments. The estimates presented in Table 1 indicate that during 1953 Soviet gold shipments amounted to a minimum of \$107 million and probably \$148 million. The total gold shipments in 1953 were 60 percent larger than the 1950-52 average annual sales of \$94 million.

Table 1

Soviet Shipments of Gold a/ 1/*
1950-53

Million \$ US			
<u>Year</u>	<u>Firm</u>	<u>Less Firm</u>	<u>Total</u>
1950	26.4	70.4	96.8
1951	79.5	18.8	98.3
1952	46.4	39.3	85.7
1953 <u>b/</u>	107.2	40.3	147.5

a. Shipments from the Satellite capitals are listed as Soviet sales. Possible sales through Far Eastern markets and Beirut are not included.

b. Based on information available through 31 December 1953.

The size of the total gold shipments in 1953 does not in itself, however, constitute indisputable evidence of a radical new policy regarding liquidation of gold stocks. On the other hand, continuation of shipments at the level of the last 4 months of 1953 would

* Footnote references to arabic numerals are to sources listed in the Appendix.

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indicate a new policy. A close watch of gold transactions in Western Europe during the first half of 1954 should provide important indications of changes in Soviet intentions as to both gold sales and foreign trade.

The ability of the USSR to purchase goods abroad by the export of gold is ultimately dependent upon its ability to procure gold and upon the size of its present gold holdings. Capabilities in the short run are more dependent upon stocks, whereas capabilities in the long run are somewhat more dependent upon the Soviet ability to produce gold. The latter is in turn a function of the relative advantages of gold production. That is, is it cheaper for the USSR to plow capital and labor into gold production using the gold to procure its needs, or is it cheaper to put factors of production directly to work producing other goods and services? It can be assumed that in a planned economy such a question would be raised.

A significant factor in assessing the relative advantages of gold production with respect to the Soviet domestic production of goods is the value of gold in terms of what it will purchase in Western markets. Table 2* contains data which permit such a comparison and which reveal that the USSR found it substantially more advantageous price-wise to export gold in the 1930's and 1940's than it finds today. Furthermore, it was probably impossible for the Russians to produce adequate quantities of certain goods at home in the 1930's, whereas today the country can produce most essentials. Consequently, it is probably not now in the interest of a country devoted to self-sufficiency to expend large quantities of capital and labor to gold production.

CIA estimates that the USSR is currently producing gold at a rate of 10 million to 15 million troy ounces annually. The CIA estimate of current Soviet gold stocks is approximately \$5 billion. ^{2/} At today's prices, a rate of production equal to the lower range of this estimate would permit the USSR to continue gold shipments indefinitely at the rate of the past few years without drawing upon reserves. The higher estimate of production indicates a capability considerably larger.

2. Purpose of Recent Soviet Gold Shipments.

The most plausible reason for the Soviet gold shipments might be that the USSR anticipates a sizable balance of payments deficit with the West and is accumulating the foreign exchange necessary to meet this deficit. Specifically in the first 6 months of 1953 the USSR imported about \$10 million more than it exported to the sterling area.

* Table 2 follows on p. 3.

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Table 2

Index of Purchasing Power of Soviet Gold Sold in the West
1935-41, 1945-53

1948 = 100

Year	(1) UK Commodity Export Prices ^{3/}	(2) Price ^{a/} of Gold ^{4/}	Purchasing Power of Gold (Col. 2 Divided by Col. 1)
1935	36	82	228
1936	37	82	222
1937	40	82	205
1938	40	82	205
1939	40	82	205
1940	49	82	167
1941	57	82	144
1945	75	82	109
1946	79	82	104
1947	90	98	109
1948	100	100	100
1949	102	104	102
1950	106	93	88
1951	125	95	76
1952	131	88	67
1953 (Dec)	126	82	65

a. Before 1946, based upon US price; after 1946, based upon Zurich price for gold ingots in \$ US per troy ounce.

Since then the USSR has paid about \$3 million (in sterling) to Canada, purchased Australian wool for about 3.6 million pounds sterling (about \$10 million), and placed new orders for butter and meat which can be paid for in sterling. ^{5/} Other negotiations and agreements indicate further imbalances which the USSR may be preparing to meet. Over and above sterling needs, the USSR is felt to be in need of Swiss francs, which may also help account for the recent increase in gold sales. ^{6/}

Another likelihood is that the USSR may be anticipating the need to purchase quantities of goods in the West in order to implement the recent announcements of increased consumer goods for the Soviet population. If the consumer goods distribution goals are to be met, some

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purchases abroad, especially in the case of meat and fats, will have to be made, at least in the short run. The amount of gold that would be sold for this purpose is dependent upon the size of the gap between domestic production and the consumption to be filled by imports. In addition to the increased emphasis on consumer goods, the pattern of procurements abroad has continued the import of capital goods and strategic minerals.

It is also possible that recent Soviet gold sales are designed to provide funds for covert activities of one sort or another. Recent receipt by banks of the New York Federal Reserve District of some \$10 million in US currency from the State Bank of the USSR (Gosbank) 7/ would tend to discredit this possibility, however, inasmuch as it would be difficult to find a more acceptable means of financing such activities than by the use of currency.

Alternatively it has been suggested that the USSR is disposing of its gold stocks because these stocks would be strategically useless in war-time. The inference could therefore be made that such disposition might be an indication of a Soviet intention to go to war. Such an inference is not justified, however, because it is likely that the recent Soviet offering of strategic commodities (including chrome, nickel, manganese, silver, platinum, and petroleum products) and its commitments to export these goods are as important strategically as any goods it might obtain through gold sales.

It should be remembered, however, that the USSR is a fully employed economy where an increase over present gold output means a reduction in productive factors available elsewhere -- for example, in the production of other goods and services. Because the USSR would be unwilling to reduce other production in order to increase the production of gold and because its gold reserves are limited, gold exports alone would be able to make but a small contribution to the total effort to supply consumer goods to the Soviet population.

3. Certain Effects of Soviet Gold Sales.

There can be no doubt but that Soviet gold sales have contributed to the recent decline in world gold prices. Other equally important factors, however, have included the recirculation of hoarded gold, the reduced Asiatic demand, and the generally improving economic conditions in Europe leading to revived confidence in the possibility of a check on inflation and currency depreciation. The price of gold, in fact, has been declining since 1949. As early as 30 May 1953, The Economist commented that the price was "unlikely to recover unless unforeseen developments occur." 8/ Thus the appearance of Soviet gold on an already weak

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market contributed to the recent decline in the price of gold to the support level of \$35.00 per troy ounce.

The USSR is well aware of the effect of declining gold prices on its ability to purchase goods abroad. In recent months, Soviet spokesmen have commented on the hardships endured by US allies because of the US insistence on maintaining its present gold policy. 2/ It is likely, however, that the USSR has more interest in the exploitation of a difference among the Western countries and the possibility of gaining a higher price for its own gold exports than that it has in the welfare of the allies of the US.

An interesting aspect of continued Soviet gold sales is that additional benefits could occur to the West similar to the recent improvement in the gold reserve position of the French Stabilization Fund. These benefits involve the strengthening of Western central bank reserves and a consequent hastening of the establishment of currency convertibility. This situation would arise largely because of the decline of world gold prices and the newly found capability of Western central banks to augment their gold reserves through purchases in the open market.

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APPENDIX

SOURCES AND EVALUATION OF SOURCES

Evaluations, following the classification entry and designated "Eval.," have the following significance:

<u>Source of Information</u>	<u>Information</u>
A - Completely reliable	1 - Confirmed by other sources
B - Usually reliable	2 - Probably true
C - Fairly reliable	3 - Possibly true
D - Not usually reliable	4 - Doubtful
E - Not reliable	5 - Probably false
F - Cannot be judged	6 - Cannot be judged

Evaluations not otherwise designated are those appearing on the cited document; those designated "RR" are by the author of this report. No "RR" evaluation is given when the author agrees with the evaluation of the cited document.

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1. This table is derived from a number of overt and covert sources ranging in classification from U to S, US OFFICIALS ONLY, and Eval. RR 3 to RR 1. Full documentation is available on request.
 2. CIA, ORR Project 24.14, 1 Jun 1953. S.
 3. IMF, International Financial Statistics, Jan 1950, Nov 1950, Nov 1953. U. Eval. RR 2.
 4. IMF, International Financial Statistics, Dec 1953. U. Eval. RR 1.
 5. Toronto Globe and Mail, 21 Nov 1953. U. Eval. RR 2.
The Times of India, Bombay, 3 Dec 1953. U. Eval. RR 2.
Army, Joint Weeka 48, Moscow, 28 Nov 1953. S. Eval. RR 1.
Christian Science Monitor, 16 Dec 1953. U. Eval. RR 2.
 6. State, Despatch No. 345, 19 Oct 1953, quoting Swiss newspaper Die Tat, 16 Oct 1953. R. Eval. RR 1.
 7. Conversation with a Federal Reserve Board Economist, 10 Dec 1953. C. Eval. RR 1.
 8. The Economist, 30 May 1953. U. Eval. RR 2.
 9. Washington Post, 2 Dec 1953. U. Eval. RR 2.
Current Digest of the Soviet Press, Vol. V, No. 141, quoting Izvestiya, 15 Oct 1953. U. Eval. RR 1.

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